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May 15, 2006

AGENDA ITEM 9

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Policy Subcommittee Report
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** CONSENT:
- a. Real Estate Policy – Revision of Global Public Real Estate Equity Securities (Global PREES)
 - b. Alternative Investment Management (AIM) Policy – Revision of AIM Program to Revise Benchmarks

IV. ANALYSIS:

The Policy Subcommittee met on April 14, 2006 and discussed or acted on the following:

- A. Election – The Subcommittee elected Priya Mathur as Chair and Marjorie Berte as Vice Chair.
- B. Policy Review Project – This project is an element of this year's annual plan. Given the Committee's emphasis on sound policy and compliance, and based on a review of the existing policies, staff has embarked upon a comprehensive project to review, update, and improve upon the existing body of investment policy. Staff provided an overview of the project objectives, approach, resources/staffing, and timeline. Staff will be prepared in July 2006 to present to the Board a summary and analysis of the existing delegations.
- C. Revised Policies – The Subcommittee recommends that the Investment Committee approve the attached revised policies.

The policies are black-lined versions from the last adopted policy by the Investment Committee. The black-line uses strike-out to indicate deletions and double underline to indicate additions. Single underline does not indicate a change; rather, it indicates that the term is defined in the glossary.

- **Item 9a – Real Estate Policy**

Revision of Global Public Real Estate Equity Securities (Global PREES)

The Global PREES Statement of Investment Policy currently allows only for active external management of international securities. The policy change allows staff to manage a portfolio of international securities on a passive basis. This means that staff is able to hold the securities that replicate a benchmark. The benchmark chosen was the EPRA/NAREIT Global ex-US.

- **Item 9b – Alternative Investment Management (AIM) Policy**

Revision of AIM Program to Revise Benchmarks

The Strategic Review of the AIM Program completed in October 2005 recommended evaluation of AIM's benchmarks. After analysis by Russell Investment Group, Wilshire Associates, and Pension Consulting Alliance, the following recommendations are being presented:

- Continue use of dual benchmarks (long term and short term)
- Continue use of a US equity market index when calculating the long-term benchmark
- Continue use of rolling ten-year periods in computing the long-term benchmark
- Lower the return premium to 300 basis points (over the public market index)
- Continue use of Venture Economics young fund median return in computing the short-term benchmark

V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The results of this item will provide the System with enhanced efficiencies and ability to manage the overall portfolio.

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